

BS Approval Request

Memo

~~To: M.Smith~~

From: A.Herrington

~~Copy: T.Rattigan
A.Chowaniec
R.Geiger~~

DRAFT

Date: 8 January 1986

Subject: OEM Chip supply to Bally-Sente

I would like to establish agreement on the supply of Amiga custom chips to Bally-Sente for use in their products. The major point outstanding is that of the selling price of the chips, all other areas having been generally agreed at the meeting in New York in November.

The general history of price discussions is that our proposed selling price for complete Amiga boards was considerably higher than the maximum acceptable to Bally-Sente. Discussion has therefore focussed on chip set supply. Initial verbal quotations were given of \$50 per set, later raised to \$100. Recent discussions with Bally-Sente indicate that this latter price is too high.

I therefore propose the following pricing:

First 15,000 chip sets \$67.50
Next 15,000 chip sets \$55.00
Subsequent chip sets \$50.00

Please review the attachments which give general background that I feel is adequate to justify this proposal, particularly Bally-Sente's view of the price, given the cost structure of their product.

Bally-Sente have indicated a willingness to commit to 15,000 chip sets over an 18 month period, starting in August 1986. At a manufacturing cost of \$13.00 per chip set this brings approximately \$800K directly to the bottom line, since cost of sale, support etc should be negligible.

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If this proposal is acceptable would you please advise so that I can make it directly to Bally-Sente immediately. Would you please also instruct the Legal Department to draw up a contract incorporating the limitations listed in the attachments.

A.R.Herrington
Director OEM Program

Commodore Motivation for Bally-Sente Contract.

- (1) Significant profit without investment or significant risk.
- (2) Technical 'stamp of approval' from a company respected in the technical community (but with possible downside PR.)
- (3) Access to a supply of Arcade quality/reputation games (but needing considerable modification for use at home).

Bally-Sente Motivation

- (1) Access to the best currently available game/graphics chip set.
- (2) Removal of threat to survival of Bally-Sente from Japanese competition.

BS - Contrac...

Legal Department - Contractual Requirements

The general basis for the contract is as follows:

We are proposing to sell Amiga chip sets to Bally on somewhat favourable terms in return for profit opportunity, an increase in product technical credibility and rights to 4-6 Arcade games per year. Bally gain exclusive rights to use the chips in the following market segments and areas:

Geographical: The geographical areas listed below.

Market segments: Gaming machines for use in Casinos
Arcade Video Game Machines

plus:

Non-Exclusive rights in Health and Fitness Machine Applications.

(Each of these segments needs appropriate legal definitions to be developed.)

Bally must seek prior approval from Commodore for sale of the chip set in products for markets other than those listed above, even in situations where non-exclusive rights are requested, in order to allow the possibility of exclusive deals with other companies.

The contract should initially be for eighteen months, renewable in two year increments, starting in August 1986. (This reflects the start of production at B-S in August 1986.)

There should be a minimum volume commitment to retain exclusivity in each of the markets, as follows:

Gaming - suggest 5000 units per year) Actual numbers
Arcade video games - suggest 5000 units per year) need further discussion with Bally.

There should be a fair and reasonable price clause to allow Commodore to buy back exclusivity to various markets both geographical and segmental, should Commodore wish. Non-activity or low activity (to be defined) in individual geographical exclusive markets should automatically return rights to Commodore after a defined (nine month ?) period, with Bally able to request continued exclusivity for a period of one year beyond the (nine month) period.

The market areas should be individually defined, as follows:

Europe, excluding Spain and Portugal

USA

Japan

Spanish and Portuguese Speaking Areas

Eastern Europe, including USSR

Rest of World

The right to resell the chips as chips (not systems) should be specifically excluded. This could be done by specifying some multiple of the chips price as the minimum reselling price for any product incorporating the Amiga chip set.

Rights to manufacture or copy or assist in copying or analysing the chips should be excluded.

Information provided by Commodore or Commodore-Amiga to assist in designing Bally products around the chip sets must be limited to Bally's use only. Software reproduction rights, if software is supplied to Bally are for the purpose of product development. Bally can only reproduce any per-product software on the basis of one copy per chip set sold.

Joint agreement between Bally and Commodore before any publicity occurs regarding the chip contract.

Contract should include pass on of Commodore's responsibilities regarding the countries with whom we can and cannot do business.

Company with whom the contract is negotiated is likely to be Bally; the agreement should cover also its subsidiaries - this point to be worked out with Bally.

Definition of support from Commodore-Amiga to be limited to consultation on Commodore-Amiga's site and to a limit of 10 man-days assistance. Additional assistance will be provided at Commodore Amiga's discretion at \$75.00 per hour. Software developer support to be supplied as for a regular software developer.

Software Department

Arcade Game Rights. The Software Department should define the wording for the selection and suitability of the four-six games per year from Bally and the technical aspects of conversion of the Arcade games for use for home use with the Amiga. The following issues should also be covered by wording to be defined by the software department. Rights to the use of the name of the Arcade game and the ability to associate the Arcade use with the use of

the game with the Amiga. Definition of the delay after Bally's Arcade introduction before the game is publicly available on the Amiga. Definition of the extent of assistance we receive from Bally at the hand-over of each game in order for us to be able to prepare the game for home use. Definition of the time of handover of information about the games to allow Commodore to get the games on the market as soon as possible. Specific arrangements for Commodore to start work on the conversion of the games for the home Amiga as soon as possible.

MOS Valley Forge

Chip Supply. The following area needs review with MOS-Valley Forge. Order leadtimes are (proposed) to be 14 weeks for firm orders, with volume projections updated on a quarterly basis. Payment to be within 60 days of delivery of chips. Chips supplied at any time are to be the same chips currently in production for Commodore use. Warranty on chips limited to replacement of faulty chips. Right to modify and update the chips at any time retained, as with any product.

BS-ATT ONE

General Information - Bally-Sente.

The Bally-Sente product. This a games machine for use in bars, pubs, arcades etc. It consists of a computer and monitor housed in a free standing box about six feet tall and two feet wide, made from wood and finished in a fairly utilitarian way. Internally it has the following components:

- A power supply - estimated cost \$75.00
- A coin box - estimated cost \$75.00
- A computer chassis, with plug-in game module - estimated cost \$225
- A large low resolution monitor with chassis - estimated cost \$225.00
- A front panel mounted control panel with joystick or steering wheel (or something similar - varies from game to game) - estimated cost \$80.00
- Case - estimated cost \$75.00

Total estimated cost: \$755

Selling Price: \$1590

The front panel, plus a display area and the game module are usually changed with each game, because they are custom to the game. The game owner/operator makes the change. Games usually last several months in the market.

The product sells at about \$1590. The Japanese competition is \$1400. The market appears to be divided between the Japanese company and Bally-Sente.

State of the market. This was said to be firming up, after a long downswing. B-S took 70% of their 1985 orders in the last (calendar) quarter of the year.

Note that Bally have three divisions interested in the chip set and that the data about the game (above) applies to Bally-Sente. (The Bally divisions are Bally-Sente, Midway and Gaming.) The applications of the chip set in the Midway and Gaming divisions are not clear, but are included in the volume estimates. Note that Bally have recently acquired major Hotels in Las Vegas and Atlantic City and that the installation of gaming machines (and other electronics) in bedrooms was being contemplated.

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BS ATT TWO...

Bally-Sente's support requirements.

Bally-Sente want to build the chip set into a board of their own design and manufacture that will duplicate much of the existing Amiga's function. (Prices already quoted for complete boards were seen as too high by Bally-Sente.)

This means that they will probably need the following support from Commodore-Amiga:

Complete set of Amiga circuit schematics, with detailed information on any specialised components used other than the chip set (e.g. PAL programming information).

Critique of their proposed circuit design and circuit board layouts, at the planning and design execution stages.

Possible advice on design for FCC approvals.

Possible video assistance.

Possible access to selected areas of the Kickstart Disk software. This could present support and release-of-source problems, although these could probably be surmounted.

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